

The Annual Audit Letter for North Devon District Council

Year ended 31 March 2017

OCTOBER 2017

Elizabeth Cave

Director
T 0117 30 57885
E liz.a.cave@uk.gt.com

Mark Bartlett

Manager
T 0117 30 57896
E mark.bartlett@uk.gt.com

Stephen Clarke

Executive
T 0117 30 57884
E stephen.t.clarke@uk.gt.com



Contents

Section	Page
1. Executive summary	3
2. Audit of the accounts	5
3. Value for Money conclusion	8
Appendices	
A Reports issued and fees	10

Executive summary

Purpose of this letter

Our Annual Audit Letter (Letter) summarises the key findings arising from the work we have carried out at North Devon District Council (the Council) for the year ended 31 March 2017.

This Letter provides a commentary on the results of our work to the Council and its external stakeholders, and highlights issues we wish to draw to the attention of the public. In preparing this letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice (the Code) and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'.

We reported the detailed findings from our audit work to the Council's Audit Committee (as those charged with governance) in our Audit Findings Report on 5 September 2017.

Our responsibilities

We have carried out our audit in accordance with the NAO's Code of Audit Practice, which reflects the requirements of the Local Audit and Accountability Act 2014 (the Act). Our key responsibilities are to:

- give an opinion on the Council's financial statements (section two)
- assess the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion) (section three).

In our audit of the Council's financial statements, we comply with International Standards on Auditing (UK and Ireland) (ISAs) and other guidance issued by the NAO.

Our work

Financial statements opinion

We gave an unqualified opinion on the Council's financial statements on 7 September 2017.

Value for money conclusion

We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources during the year ended 31 March 2017. We reflected this in our audit opinion on 7 September 2017.

Certificate

We certified that we had completed the audit of the accounts of North Devon District Council in accordance with the requirements of the Code on 7 September 2017.

Certification of grants

We also carry out work to certify the Council's Housing Benefit subsidy claim on behalf of the Department for Work and Pensions. Our work on this claim is not yet complete and will be finalised by 30 November 2017. We will report the results of this work to the Audit Committee in our Annual Certification Letter in January 2018.

Other work completed

We provided your teams with training on financial accounts. We also held separate workshops on Income Generation and Faster Close, and a seminar on Joint Ventures.

Working with the Council

During the year we have delivered a number of successful outcomes with you:

- An efficient audit –delivery of the accounts audit over one month before the deadline
- VFM - we provided you with assurance and feedback on your arrangements for delivering efficiency, effectiveness and economy.
- Sharing our insight – we provided regular audit committee updates covering best practice. We also shared our sector insight via our National Reports.

We would like to record our appreciation for the assistance and co-operation provided to us during our audit by the Council's staff.

Grant Thornton UK LLP
October 2017

Audit of the accounts

Our audit approach

Materiality

In our audit of the Council's accounts, we applied the concept of materiality to determine the nature, timing and extent of our work, and to evaluate the results of our work. We define materiality as the size of the misstatement in the financial statements that would lead a reasonably knowledgeable person to change or influence their economic decisions.

We determined materiality for our audit of the Council's accounts to be £1 million, which is 1.91% of the Council's gross revenue expenditure. We used this benchmark, as in our view, users of the Council's accounts are most interested in how it has spent the income it has raised from taxation and grants during the year.

We also set a lower level of specific materiality for senior officer remuneration and auditor's remuneration.

We set a lower threshold of £50,000, above which we reported errors to the Audit Committee in our Audit Findings Report.

The scope of our audit

Our audit involves obtaining enough evidence about the amounts and disclosures in the financial statements to give reasonable assurance they are free from material misstatement, whether caused by fraud or error. This includes assessing whether:

- the Council's accounting policies are appropriate, have been consistently applied and adequately disclosed;
- significant accounting estimates made by the Head of Resources are reasonable; and
- the overall presentation of the financial statements gives a true and fair view.

We also read the narrative report and annual governance statement to check they are consistent with our understanding of the Council and with the accounts included in the Statement of Accounts on which we gave our opinion.

We carry out our audit in line with ISAs (UK and Ireland) and the NAO Code of Audit Practice. We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach was based on a thorough understanding of the Council's business and is risk based.

We identified key risks and set out overleaf the work we performed in response to these risks and the results of this work.

Audit of the accounts

These are the risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Valuation of pension fund net liability</p> <p>The Council's pension fund net liability, as reflected in its balance sheet, represents a significant estimate in the financial statements.</p>	<p>As part of our audit work we:</p> <ul style="list-style-type: none"> Identified the controls put in place by management to ensure that the pension fund net liability was not materially misstated and assessed whether those controls were implemented as expected and whether they were sufficient to mitigate the risk of material misstatement. Reviewed the competence, expertise and objectivity of the actuary who carried out the Council's pension fund valuation. Gained an understanding of the basis on which the IAS 19 valuation was carried out, undertaking procedures to confirm the reasonableness of the actuarial assumptions made. Reviewed the consistency of the pension fund net liability disclosures in notes to the financial statements with the actuarial report from the Council's actuary. Carried out additional work to gain assurance over the discount rate used by the actuary which was outside of the range expected by the auditor's expert's review of the actuary (Barnet Waddingham). 	<p>We considered the reasons for the increase in the pensions defined benefits liability in view of the assumptions used by the actuary and the explanation provided in the notes to the accounts. Overall we concluded that the impact on the liability was within the reasonable bounds of estimation.</p> <p>Our audit work did not identify any issues to report.</p>
<p>Valuation of property plant and equipment</p> <p>The Council revalues its assets on a rolling basis over a five year period. The Code requires that the Council ensures that the carrying value at the balance sheet date is not materially different from the current value. This represents a significant estimate by management in the financial statements.</p>	<p>As part of our audit work we have:</p> <ul style="list-style-type: none"> Reviewed management's processes and assumptions for the calculation of the estimate. Reviewed the competence, expertise and objectivity of any management experts used. Reviewed the instructions issued to valuation experts and the scope of their work Held discussions with the Council's valuer about the basis on which the valuation was carried out, challenging the key assumptions. Reviewed and challenged the information used by the valuer to ensure it was robust and consistent with our understanding. Tested revaluations made during the year to ensure they were input correctly into the Council's asset register Evaluated the assumptions made by management for those assets not revalued during the year to assess how management satisfied themselves that these were not materially different to current value. 	<p>Our audit work has identified the following issues:</p> <ul style="list-style-type: none"> The Queens Theatre was revalued for 2016/17 and a change in the basis of valuation led to a significant increase in valuation (£7.2m). We were satisfied that the valuation for 2016/17 was reasonable but concluded that the basis of valuation in previous years was incorrect. See page 19. Valuations are still being carried out as at 1 April instead of the balance sheet date of 31 March so even the most recent are a year out of date. PPE should be valued at the latest practical date for the financial year i.e. 31 December or later.

Audit of the accounts

Audit opinion

We gave an unqualified opinion on the Council's accounts on 7 September 2017, in advance of the 30 September 2017 national deadline.

The draft accounts were produced to a good standard, with the audit being facilitated by good supporting working papers and excellent assistance from the financial services team

The Council made the accounts available for audit in line with the agreed timetable.

Issues arising from the audit of the accounts

We reported the key issues from our audit of the accounts of the Council to the Council's Audit Committee on 5 September 2017.

No significant amendments were made to the Comprehensive Income and Expenditure Statement. Following a significant revaluation increase in 2016/17, we identified that the valuation basis of the Queens Theatre in previous years was not appropriate. Because it was a material amount, this resulted in a Prior Period adjustment to the 2015/16 balance sheet of £7.2m

Annual Governance Statement and Narrative Report

We are required to review the Council's Annual Governance Statement and Narrative Report. It published them on its website with the draft accounts in line with the national deadlines.

Both documents were prepared in line with the relevant guidance and were consistent with the supporting evidence provided by the Council and with our knowledge of the Council.

Other statutory duties

We also have additional powers and duties under the Act, including powers to issue a public interest report, make written recommendations, apply to the Court for a declaration that an item of account is contrary to law, and to give electors the opportunity to raise questions about the Council's accounts and to raise objections received in relation to the accounts.

We did not identify any issues that required us to apply our statutory powers and duties under the Act.

Value for Money conclusion

Background

We carried out our review in accordance with the NAO Code of Audit Practice (the Code), following the guidance issued by the NAO in November 2016 which specified the criterion for auditors to evaluate:

In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people.

Key findings

Our first step in carrying out our work was to perform a risk assessment and identify the key risks where we concentrated our work.

The key risk we identified was:

- There is a risk that, without careful financial planning, resources will be insufficient to fund the Council's activities in the medium term.

Details of the work we performed and our conclusion are set out in the table overleaf.

As part of our Audit Findings report agreed with the Council in September 2017, we agreed the following recommendation to address our findings:

- The Council needs to develop savings plans to bridge the budget gaps totalling £555k in the 2018/19 to 2020/21 years.

Overall VfM conclusion

We are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2017.

Value for Money

Value for money risks

Risk identified	Work carried out	Findings and conclusions
<p>Medium term financial planning Like all public sector bodies, the Council is facing financial pressures with cuts in central funding . There is a risk that, without careful financial planning, resources will be insufficient to fund the Council's activities in the medium term.</p>	<p>We reviewed the Council's latest Medium Term Financial Strategy (MTFS) and the 2017/18 budget, considering the assumptions that underpin the figures within them including the revised arrangements for New Homes Bonus.</p>	<p>The 2017/18 Budget and latest MTFS 2017-2021 were considered by the Executive on 6/2/17 and approved by Council on 22/2/17. The MTFS was updated for all of the latest information at this time and is based the four year settlement from DCLFG and the 2017/18 budget which is then rolled forward based on a number of assumptions. The MTFS runs through to 2020/21, showing a cumulative budget gap of £138k in 18/19, £317k in 19/20 and £555k in 20/21. This is dependent on the achievement of savings, including the changes to garden waste and recycling services, continued vigorous vacancy management and reviews of the Council structure and reviewing external grants and services provided through external partners. The other assumptions in the plan: business rates retention, grant funding levels, council tax income have been considered and appear reasonable. The New Homes Bonus assumptions are in line with the revised arrangements. The MTFS already identifies potential schemes to bridge the gap but has not included them at this time as they are subject to further assessment and Council approval.</p> <p>We are satisfied that the Council has proper arrangements in place for medium term financial planning. The Council needs to develop firm savings plans to bridge the budget gaps totalling £555k in the 2018/19 to 2020/21 years.</p>

Appendix A: Reports issued and fees

We confirm below our final fees charged for the audit and provision of non-audit services

Fees

	Proposed fee £	Actual fees £	2015/16 fees £
Statutory audit of Council	47,401	47,401	47,401
Housing Benefit Grant Certification	13,213	13,213*	13,956
Total fees (excluding VAT)	60,614	60,614	61,357

The proposed fees for the year were in line with the scale fee set by Public Sector Audit Appointments Ltd (PSAA)

* This work is on-going and the final fee will be notified in the Certification Letter later this year.

Reports issued

Report	Date issued
Audit Plan	May 2017
Audit Findings Report	September 2017
Annual Audit Letter	October 2017

Fees for other services

Service	Fees £
Audit related services:	
• None	Nil
Non-audit services	
• Investors in People reaccreditation	10,350

Non- audit services

- For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The table above summarises all other services which were identified.
- We have considered whether other services might be perceived as a threat to our independence as the Council's auditor and have ensured that appropriate safeguards are put in place, as reported in our Audit Findings Report.

The above non-audit services are consistent with the Council's policy on the allotment of non-audit work to your auditor and have been approved by the Audit Committee.



© 2017 Grant Thornton UK LLP. All rights served.

'Grant Thornton' refers to the brand under which the Grant Thornton member firms provide assurance, tax and advisory services to their clients and/or refers to one or more member firms, as the context requires.

Grant Thornton UK LLP is a member firm of Grant Thornton International LTD (GTIL). GTIL and the member firms are not a worldwide partnership. GTIL and each member firm is a separate legal entity. Services are delivered by the member firms. GTIL does not provide services to clients. GTIL, and its member firms are not agents of, and do not obligate, one another and are not liable for one another's acts or omissions.

grant-thornton.co.uk